

Economic Perspectives

Volume 6

An Electronic Journal of the U.S. Department of State

Number 1

REFORMING THE INTERNATIONAL FINANCIAL INSTITUTIONS



February 2001

ECONOMIC PERSPECTIVES

Reforming the International Financial Institutions

U.S. DEPARTMENT OF STATE

ELECTRONIC JOURNAL

VOLUME 6, NUMBER 1, FEBRUARY 2001

In the last decade, the international financial institutions (IFIs) have been called on by member countries more often than ever before to address financial crises, assist governments that are making economic and social reforms, and help poor countries find new ways to develop and grow.

The International Monetary Fund (IMF), the World Bank Group, and the regional development banks have all assisted these efforts, which have ranged from treating financial crises in Mexico, Asia, and elsewhere, to helping centrally planned countries move to market economies, to facilitating debt reduction in the poorest nations.

This has occurred as the global capital markets themselves were transformed. Private capital now flows around the world in unprecedented quantities and varieties, some going to developing countries that previously would have looked to private markets in vain.

At the same time, questions have increased concerning the effectiveness of the institutions in addressing global financial challenges, their structures, their priorities, their fundamental approaches, and their flexibility.

How well are the international financial institutions doing their jobs in the face of these new challenges and opportunities? What should be the role of IMF? Are financial crises unavoidable, or have the IFIs' actions made them more likely? How should the World Bank and the regional development banks change their operations to be more effective in the new environment?

There are great differences of opinion on these questions. We can anticipate a public discussion of these issues as the new Bush administration develops its policies on international financial institutions over the coming months. We hope that the expert viewpoints represented in this issue of *Economic Perspectives* will help to clarify the issues.

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Editor, Economic Perspectives
IIP/T/ES
U.S. Department of State
301 4th Street, S.W.
Washington, D.C. 20547
United States of America
E-mail: ejecon@usia.gov

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Editor	Jonathan Schaffer
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U.S. Department of State
Office of International Information Programs
February 2001

□ REFORMING AND REFOCUSING THE INTERNATIONAL MONETARY FUND

By Senator Phil Gramm, Chairman, Committee on Banking, Housing, and Urban Affairs, United States Senate

The International Monetary Fund (IMF) should return to its original mission of helping countries in times of financial distress by providing short-term lending at non-concessionary rates, reflecting the Fund's "lender-of-last-resort" nature, says Senator Phil Gramm of Texas. Gramm heads the Senate Banking Committee, which has jurisdiction over IMF legislation in the Senate. In his view, the IMF should also end long-term lending and stop providing development assistance — a job better suited for the World Bank.

Gramm, who has been a persistent critic of U.S. policy toward the IMF, adds that steps must be taken to assure that the benefits of IMF-World Bank administered debt relief for the poorest countries flow to the people of the recipient nations. "Without guarantees of how the nations' now-freed-up resources will be used, there is a high risk that they will end up subsidizing government corruption," he says.

Over the past year, the U.S. Congress and the administration have wrestled with how best to help nations facing ruin because of major financial crises or astronomical debt burdens. As chairman of the Senate Banking Committee, there is one principle on which I have not been willing to compromise: U.S. aid must help nations solve — not repeat — their problems.

Too often, U.S. assistance is not used to lift the world's poor out of grinding poverty but is wasted on bureaucrats and tyrants, condemning their citizens to a continuing downward spiral of poverty. We need to stop squandering our money and start focusing it where it can make a real difference to millions of poor around the world. To break the recurring cycle of poverty, we must reform the International Monetary Fund by refocusing its priorities and returning it to its original mission. And we must ensure that the benefits of IMF-related debt relief go to the people of desperately poor countries, not to the corrupt elite who run them.

A LOOK AT IMF'S MISSION, PRIORITIES

Reform of the IMF is the critical first step. As a very large contributor to the IMF, the United States is not

getting a good return on its investment. IMF crisis lending packages have grown larger, longer, and more frequent, with few economic or developmental results in the recipient countries to show for it. Many of my constituents in Texas would say that this investment doesn't pass the common-sense test.

The Congress proposed some basic reforms in 1998, when we provided \$18,200 million of U.S. taxpayers' money for the IMF. In exchange, we insisted that the IMF place a priority on market-oriented reforms and good governance measures, to make sure the world's poor receive the benefits of the IMF assistance. Some progress has been made. But for the most part, we are still waiting for the IMF to get to work and for the reforms to take hold.

Over the past year, I have been pushing for an even more basic reform: re-assertion of the IMF's original mission. If we want to make sure the world's poor (and U.S. taxpayers) get a good return on our investment, it seems to me that the United States should clearly define the mission we want the IMF to perform. That mission should be close to that originally envisioned for this organization. Under the Bretton Woods accord, the IMF started out with a mandate to make short-term liquidity loans to try to keep fixed exchange rates fixed. But like all government agencies, national and international, when that was no longer their mission, they redefined their mission and expanded it over time.

Today, the IMF spends its time dealing with major currency crises in the developing world through long-term, often concessional loans. The terms of these loans stretch on for years. Seventy nations have been in debt to the IMF for more than 20 years. In March 2000, a congressionally authorized advisory commission on international financial institutions, known as the Meltzer Commission, submitted a report to the U.S. Congress on the IMF and the development banks. As the commission pointed out, the IMF's mission creep has made poorer nations increasingly dependent on the IMF without promoting their economic progress.

This debt-driven cycle of poverty will not be broken until the IMF reforms both its priorities and its mission. To reform its priorities, the IMF should fully implement the congressionally proposed reforms of 1998. By pressing nations for market-oriented policies that encourage economic growth and democracy and discourage corruption, we can help ensure that the citizens — rather than the ruling elite — see the benefits of the IMF assistance.

To reform the IMF mission, I have proposed three steps. The first of these is to refocus the IMF on its core mission of short-term lending to address financial and monetary instability, and removing the IMF from the development assistance business (a job for which the World Bank is better suited). Second, cap and start phasing out existing long-term lending programs. Third, set interest rates on IMF loans that reflect the lender-of-last-resort nature of IMF resources, so that nations are encouraged to use private sources of funding first. With these changes, the world's poor can see some meaningful relief.

DEBT RELIEF

We need similar reforms when it comes to debt relief under the multilateral Heavily Indebted Poor Countries (HIPC) initiative. To date, 22 desperately poor countries — Benin, Bolivia, Burkina Faso, Cameroon, Guyana, The Gambia, Guinea, Guinea-Bissau, Honduras, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, São Tomé and Príncipe, Senegal, Tanzania, Uganda, and Zambia — have qualified for relief amounting to more than \$30,000 million. Another 11 may qualify in the future.

These 33 countries have borrowed money from the United States and others. Often, the money has been squandered on programs that have been rejected all over the world; too many times, it was stolen outright by bureaucrats or tyrants. But these countries petitioned the United States repeatedly for debt forgiveness, and last year, Congress finally agreed. Congress provided \$435 million for U.S. participation in the HIPC initiative and authorized the IMF to use the proceeds from IMF gold sales for its participation.

In College Station, Texas, where I am from, it is pretty hard to gain support for forgiving billions of dollars of debt to countries that took the money and threw it away. Even so, I was willing to write off these loans because I

believed that the rational policy for the United States was to write off loans to desperately poor countries that haven't a prayer of paying the loans back.

But I didn't support the final agreement last year to approve the debt relief funding. I didn't support it because it did not even attempt to guarantee that the fruits of the debt relief would flow to the people, not the government, of the receiving nations. The Clinton administration promoted the debt relief effort as "good financial practice" and "the right way to reduce poverty." That may have been the intent. But without guarantees of how the nations' now-freed-up resources are to be used, there is a high risk that they will end up subsidizing government corruption in places like The Gambia and Cameroon, or violence in war-torn nations like Chad, instead of breaking the cycle of poverty that traps their citizens.

I believed then and I still believe that if we are going to cancel nations' debt, we should make sure the benefits go to the people who live in those countries and not to the corrupt elite who run them. Otherwise, our goodwill gesture will be nothing more than throwing good money after bad. Others have reached the same conclusion that I have.

CONDITIONS FOR DEBT FORGIVENESS

One example of my concern: On the very same day that Uganda, one of the initial countries targeted for debt forgiveness, qualified for debt relief, its president bought himself a \$32 million luxury Gulf Stream jet to get himself around the country. The "good" news appears to be that the jet originally was to have cost \$47 million. But that pales beside the bad news, which is, of course, that \$32 million might have done hard-working, poor Ugandans a lot of good if used to promote economic growth instead.

Another example: Chad, a nation that may qualify for HIPC relief, is prominent in the State Department's annual report on human rights abuses. The latest State Department report notes that state security forces in Chad continue to commit extra-judicial killings and to torture, beat, abuse, and rape persons. I am not in favor of providing debt relief to a government guilty of the torture, beatings, abuse, and rape of its own people.

It is true that elected civilian governments are increasingly common, but not in many of these countries. And there

may be new ways to keep our money from subsidizing war budgets or dictators' Swiss bank accounts, but the IMF won't use them. The result may be continued war, theft, and brutality — and continued misery on a continental scale.

I viewed the solution on debt relief as the same solution American families use when the bill collector comes knocking at their door: they figure out how much they are making and how much they are spending, and decide what changes they will make to get themselves solvent again. In other words, they change their habits and they change their behavior.

So I proposed that we condition debt forgiveness on two points: first, that no forgiveness be allowed for any nation whose government engages in gross violations of human rights, and, second, that the nation receiving forgiveness must establish market-based benchmarks to measure progress on economic and good governance reforms. I believed that this was the most effective way to ensure that the U.S. contribution would break the recurring misery of these nations' citizens. This was my proposal when debt relief funding was voted on last year, and it continues to be.

BREAKING THE CYCLE OF POVERTY

Millions of people around the world live in grinding poverty and misery. They deserve better from their

leaders. Through IMF refocus and reform, their governments might have learned that adopting market-oriented structural measures that will promote economic growth and good governance is wiser than continuing socialist approaches that deny economic freedom and promote dependence on IMF and foreign loans. Through international debt relief conditioned upon channeling the newly available resources to productive use, their governments might have promoted a better standard of living for their people.

I regret that neither IMF reform nor debt relief guarantees made great strides forward last year. For the sake of the world's poor, I hope that economic progress will be made nonetheless. Meanwhile, I intend to keep fighting to see that U.S. aid helps nations break — not repeat — the cycle of poverty. □

Note: The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. Department of State.

❑ IFI REFORM: A PLAN FOR FINANCIAL STABILITY AND ECONOMIC DEVELOPMENT

By Allan H. Meltzer, Professor of Political Economy and Public Policy, Carnegie Mellon University

The U.S. Congress in November 1998, as part of an \$18,000 million funding package for the International Monetary Fund (IMF), authorized the establishment of the International Financial Institution Advisory Commission. The commission's task: to review the effectiveness of the international financial institutions (IFIs), which include the IMF, the World Bank, and the regional development banks.

The commission was chaired by Allan H. Meltzer, an economics professor at Carnegie Mellon University and visiting scholar at the American Enterprise Institute. In March 2000, the commission sent to the Congress a report — approved by Meltzer and the majority of the commission members — sharply criticizing the IFIs and offering proposals for far-reaching structural changes in these institutions. Here, Meltzer outlines the commission's majority conclusions and proposals.

The world economy and the international financial system are now very different from what was envisioned at the Bretton Woods conference in 1944, when the International Monetary Fund and the World Bank were established. These principal international financial institutions have responded to the many changes and crises in recent decades by expanding their mandates and adding new lending facilities and programs. New regional institutions, such as the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank, have opened to serve the needs of regional populations, but many of the activities of these agencies overlap with those of the World Bank.

In addition, two major changes have occurred in the international financial environment that require changes in the responsibilities of the international financial institutions. First, the fixed but adjustable exchange rate system adopted at Bretton Woods ended almost 30 years ago. Second, private financial institutions, corporations, and individuals in the industrial countries now supply the largest part of the capital flows to the developing world. The international financial institutions' share is now less than 5 percent of the total. Many of the poorest countries, however, remain dependent on the IFIs.

Major problems in the international financial system have followed these changes. Some countries have grown to rely excessively on short-term private capital inflows to finance long-term development, a very risky approach that has caused crises throughout history. Financial systems in developing countries too often have been used to subsidize favored industries or individuals, weakening the financial institutions, eroding their capital, and increasing risks of crises and failures. Pegged exchange rates in many developing countries have made them vulnerable to speculative attacks. All these factors have helped create financial systems subject to frequent, severe crises.

Further, while the IFIs lend to governments, the institutions have very little influence over how the funds are used. Often, projects are not completed, funds are misappropriated, and promised reforms are not implemented. Instead of improving their own performance, the development banks have expanded their programs to overlap with the IMF. The reverse is also true. The IMF, founded to deal with short-term financial problems, now makes long-term loans for structural reform and poverty alleviation. Some countries remain permanently in debt to the IMF. Long-term lending should be left to the development banks.

NEEDED STRUCTURAL CHANGES

To restore the IFIs effectiveness, these institutions must undergo structural changes.

The proper role of the IMF should be preventing financial crises and the spread of crises that do occur. Crisis prevention does not mean that the IMF continues to "bail out" all lenders, or lends large amounts to maintain pegged exchange rates, or dictates the policies to be followed in client countries. The IMF should not lend to finance the structural reform of the recipient country's institutions. The Fund should give advice, but it should not tie the advice to assistance.

The mission of the development banks — the World Bank and the regional development banks — should be

four-fold: promoting economic and social development (including the reform of domestic institutions), improving the quality of life, reducing poverty, and providing global and regional public goods. These institutions should not be banks in the traditional sense. Their job should not be to increase the number and size of their loans or to lend to creditworthy countries. It should be to advance development, not lending. Reflecting this, the names of these institutions should be changed from development banks to development agencies.

Steps also must be taken to address the "overlap" problem between the World Bank and the regional development banks. The World Bank has started to create field offices in loan-recipient countries. This is a waste of resources by an overly large and ineffective bureaucracy. The regional development banks already have offices in all of the relevant countries. Many governments and their constituents have closer ties of language, culture, and understanding to the regional agencies. Effectiveness would be improved, and costly overlap reduced, if the regional banks assumed sole responsibility for many of the programs in their regions. The World Bank's direct role should be limited to regions without a development bank and to Africa, where poverty problems are most severe and difficult to solve, and where the regional bank has less experience. The World Bank should continue to supply technical assistance and promote knowledge transfer in all regions.

PRE-CONDITIONS FOR IMF ASSISTANCE

The IMF needs to focus on four main tasks: crisis prevention, crisis management, improved quality and increased quantity of public information, and macroeconomic advice to developing countries.

Each of the serious crises since 1982 has its own special features and some common features. Before the crisis breaks out, investors begin to withdraw funds. The country often guarantees the foreign exchange value of the funds in an attempt to forestall the emergency. This postpones the crisis but does not prevent it. The IMF tries to help the country maintain its exchange rate by lending foreign currency to defend the exchange rate. The country may increase interest rates and promise reforms, but investors see increased risk. If the financial system depends on short-term capital inflow, it may collapse with the exchange rate. The most damaging crises are of this kind.

Not all crises can be prevented. However, the frequency and severity of crises can be reduced by reforming country and IMF practices to increase incentives for policies and behavior that enhance stability. The IMF should be a quasi lender of last resort, not first resort, providing liquidity when markets close. It should work to prevent crises, act to mitigate them, and leave structural reform and development to the capital markets and the development banks.

When countries face a crisis that requires IMF assistance, they need it quickly. To make this possible, countries should meet certain pre-conditions to qualify for the IMF aid. Then, when needed, the assistance should be provided immediately. This would end the existing process in which countries that need assistance have to wait while negotiators agree on a long list of conditions for structural, institutional, and financial changes. Crises worsen during these delays, and there is little evidence that conditions for disbursement of aid, imposed after the crises have begun, have helped much in the past.

The pre-conditions must be straightforward, clear, easily monitored, and enforced. The four most important are that the nation's financial system is adequately capitalized, that government financial policies are prudent, that information on the maturity structure of foreign debt becomes available promptly, and that foreign banks are allowed to compete in local financial markets. Member countries of the World Trade Organization have agreed to phase-in this last condition. I would add a fifth condition: that the exchange rate system be either firmly fixed or floating.

Countries would have strong incentives to meet and to maintain the pre-conditions. IMF acceptance of the country as pre-qualified for automatic assistance would serve as a seal of approval. The country would be able to obtain more foreign capital on more favorable terms. Countries that were not pre-qualified would get fewer loans and would pay higher interest rates to compensate for the additional risk. Pre-conditions would redirect private sector flows away from high-risk borrowers toward those that pursue stabilizing policies. This would reduce the risk in the entire system.

Third countries harmed by the collapse of a trading partner would automatically receive assistance if they meet the pre-conditions. Countries that do not meet the pre-conditions would receive IMF help only in a crisis that affected the entire system.

Removing structural reform from the IMF's mandate is based on a well-known proposition that money can solve liquidity problems, but not real structural problems. In developing countries, structural problems arise because of regulation, tariffs, inadequate financial supervision, absence of the rule of law, and other impediments to investment. As recent experience demonstrates, loans and liquid resources often allow countries to delay reform.

The IMF can help sustain market discipline through the publication of timely, accurate information on economic, financial, and political developments. Accurate information permits lenders and investors to make informed decisions. The IMF has a major role in improving the quality and increasing the quantity and timeliness of country data. Publication of reports of IMF missions and the IMF's recommendations is a welcome development. Improved information reduces uncertainty and improves lenders' decisions. Release of information encourages reform and permits investors to make continuous marginal adjustments instead of rushing to exit when anticipations change quickly. Further, improving information and opening the economy to foreign banks reduces reliance on renewable, short-term loans. Thus, it reduces one of the major problems of development finance: excessive reliance on short-term loans.

Another issue is "moral hazard," which arises in international lending when governments or IFIs permit foreign lenders to believe that they will be bailed out in a crisis. Part of the solution for reducing or eliminating moral hazard lies in letting foreign financial institutions compete in the local market. They would hold both assets and liabilities denominated in local currency, so they would be less exposed to exchange rate risk. An open financial system would encourage foreign entrants with a long-term commitment, thereby reducing reliance on short-term capital. And foreign banks would bring expertise in risk management and act as relatively safe havens if a crisis occurs.

A MORE FOCUSED MISSION FOR DEVELOPMENT BANKS

The development banks' main problems are that their programs lack focus, are often loosely related — or unrelated — to their stated goals, and all too frequently fail to accomplish their objectives. After decades of programs, many of the poorest nations have lower living standards than in the past. The fault does not lie totally

with the development banks, but they have not found ways around the obstacles that some governments create. And they continue to lend despite the obstacles and the resulting failures.

Countries that have made substantial progress are those that have strengthened institutions and the role of markets; those that have not made these reforms have made little, if any, progress. Most of the very poor countries owe large debts to the IFIs that cannot be serviced or repaid. These debts need to be forgiven entirely, but only after countries implement reforms.

Changes to the development banks should focus on three broad areas. First, the development banks should work to improve the quality of life, even in countries where corruption and institutional arrangements hinder or prevent economic development. In place of loans, the development banks should offer grants paying up to 90 percent of the cost of approved projects. To increase achievement and reduce waste, grants should be given after competitive bidding and should require independent monitoring and auditing of results. Payments should be made, after performance is certified, directly to suppliers instead of to governments. This would give the suppliers an incentive to assure that inoculations are made, potable water is supplied, sanitation is improved, and literacy rates are increased, and that these and other programs produce measurable results. Second, long-term subsidized loans to develop effective institutions would assist countries that willingly adopt and sustain the necessary reforms. Here, too, independent auditors must certify that progress continues. Third is the issue of global and regional public goods. Many problems that prevent development or reduce the quality of life are common to many different countries. The development banks have maintained a country-specific focus. They have not tried to find solutions to common concerns involving health issues, tropical agriculture, and many other areas. Research is costly, and individual market demand is too small to induce companies to do the research. By bringing countries together and subsidizing their joint research efforts, the development banks can close the gap between social and private rates of return.

Scarce official financial resources need to be concentrated on poor countries without access to alternative funds. Countries should graduate automatically and regularly from the development banks' programs. Graduation would release more money to help the poorest countries. The development banks should continue to offer

technical assistance to countries that graduate, but these countries should borrow in the market and be subject to market discipline.

A CALL FOR REFORM

The international economy has experienced several prolonged, deep financial crises in the past 20 years. At the same time, economic development has bypassed the poorest countries. Many of them are in Africa, but extreme poverty can be found also in Latin America, Asia, and southern and eastern Europe.

Reform of the international financial institutions is needed to increase economic stability, improve the flow of information, encourage economic development, support institutional reform, reduce poverty, and support provision of regional and global public goods. □

Note: The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

□ THE IMF AND THE WORLD BANK: ADDRESSING FINANCIAL CRISES AND DEVELOPMENT

An Interview With Timothy Geithner, Senior Fellow at the Council on Foreign Relations and Former U.S. Under Secretary of the Treasury for International Affairs

The international financial institutions (IFIs) will continue to play a crucial role in the world financial system, helping emerging market countries through financial crises and assisting poorer nations with development, says Timothy Geithner, a former under secretary of the treasury for international affairs. Recent reforms, increased funding, and new financial tools have helped make the IFIs more effective, Geithner says.

This interview was conducted by Economic Perspectives Managing Editor Warner Rose.

QUESTION: Are the international community and the international financial institutions better able to prevent and contain financial crises today, when compared to five years ago?

GEITHNER: We live in a world of sovereign governments, and we live in a world of increasingly integrated capital markets. The system as a whole will always have a limited capacity to prevent sovereign governments from making decisions that will later either drag them into financial crises or fail to reduce their vulnerability to crises.

Most economists would agree that their capacity to predict crises effectively is very limited. And even where you think you have credible knowledge of the risks a country faces, it's hard to convince governments to address these risks early enough to make crises less likely or less severe. You have to start from that basic premise.

Because the world is so integrated now and because many large, emerging market economies that are systemically significant are more open to capital flows, the system as a whole is more vulnerable to the changes in sentiment that are inherent in all markets. Where capital is more mobile, the effects of shifts in confidence and changes in perceptions and fundamentals can have a more far-reaching, much more rapid effect on countries.

During the last five years, there have been a number of developments that equip the international financial institutions with much more powerful tools — mostly financial tools — to respond to crises and to help countries reduce their vulnerability to crisis.

The International Monetary Fund (IMF) also encourages countries to move to more resilient exchange rate arrangements, away from hard pegs that can result in a buildup in short-term external debt and other vulnerabilities that can be so devastating in a crisis. There has been a shift to a more flexible regime that makes the system itself more resilient. But probably the defining and most promising change has been a revolution in transparency — the quality of information that the countries that belong to the IMF must disclose to the markets is much greater, much more comprehensive, and much more timely than ever before.

Q: What are the new tools for responding to crises?

GEITHNER: The main tools are greater resources for the IMF.

First, there was the 1999 increase in IMF members' quota contributions, which almost doubled the Fund's financial resources. Second, a new emergency financial reserve fund, called the New Arrangements to Borrow, a \$50,000 million fund, went into effect in 1998. New IMF facilities were set up to provide the capacity for very large-scale finance in emergency situations. This finance is provided at an above-market interest rate — a penalty interest rate — on shorter maturity, so countries won't draw on the facility unless it is really necessary and will be encouraged to go back into the private markets as quickly as possible.

Q: What are the new facilities?

GEITHNER: The principal new facility is the Supplemental Reserve Facility, the SRF. A second is the Contingent Credit Line, or CCL, which has a slightly different character.

The SRF is designed for countries that experience crises resulting from a change in conditions that lead to a large movement of capital flows. Generally, this facility should be invoked only when there is some risk of contagion from the crisis. The SRF was first used for Korea in December 1997, then for Brazil in 1998.

The Contingent Credit Line is designed to induce countries to put in place in advance policies that might make them less vulnerable to crisis, by giving them the contingent capacity to draw potentially substantial funds when there is a crisis. While the CCL is up and ready, it has not yet been used.

Q: What other arrangements work with these tools?

GEITHNER: As a complement, the major creditor/donor countries have put in place innovative market-based arrangements for use during crises to deal with claims held by private investors, so that the debt can be restructured where it needs to be restructured, or a country's external creditors can be induced to maintain exposures or extend the maturity of those exposures when that is appropriate.

So there is now, in general, a better capacity to use official finance plus a constructive response from private investors to help bring a crisis to resolution more quickly.

Q: What has been the effect of these new facilities?

GEITHNER: They have given the IMF the capacity to respond with greater financial force when necessary to deal with a crisis that has systemic ramifications, and to make sure that it is done on conditions that are likely to restore confidence quickly.

It was this capacity that made the 1995 program for Mexico work and made it possible for the recoveries in Korea and Brazil to be as effective as they have been. These countries recovered much faster than most people had predicted.

The same sort of innovative financial packages have been used for crises that have followed, most recently in Argentina and Turkey.

Where there has been success, it has been because of the somewhat unprecedented mix of large-scale financial resources and a strong, credible economic reform program in the country. Where programs did not work,

it was largely due to the failure of countries' political systems to make a credible effort to get confidence back.

Q: What about the issue of moral hazard — that because these rescue tools exist, they encourage investors and countries to believe that the IMF will save them from bad investments and bad policies?

GEITHNER: Critics have argued that the assistance programs for Mexico, Korea, and Brazil increased the degree of moral hazard in the system.

But if you look at the emerging market finance business today, the default risk embedded in the interest rates those loans now carry, how much money now flows to emerging markets, and the form of those flows, there is little basis for concluding that a significant and dangerous degree of moral hazard has been induced in the system. Most of the good recent academic work on this subject comes to a similar conclusion. There is more differentiation than before in how credit risk across emerging markets is priced. That is a good indication of the success of improvements in transparency and a greater awareness of risk.

There will always be moral hazard in the system by virtue of the IMF's existence, and you necessarily increase that risk when you do what was done in recent years, which was to expand the resources available for crisis and make it clear you were prepared to use them. The challenge is to limit that risk while preserving the capacity to respond effectively to future crises.

Q: Is the IMF getting more involved in development programs?

GEITHNER: The view of what delivers durable development success has expanded over time. It is now recognized that growth requires more than credible macroeconomic policies. A huge amount depends on the quality of the institutional framework set up to enable a market economy to work. And a huge amount of what matters is the scale and quality of investments you make in health care and education and other things like that.

The Fund should focus primarily on the macroeconomic policy framework that is central to durable growth strategies. But there are things outside that narrow framework that also matter for financial stability, like the strength of the financial system itself. These issues are the province of the Fund. The broader issues of structural

change and social programs should be the province of the multilateral development banks.

Q: How will the IMF and the World Bank work together? Where does one's task end and the other's begin?

GEITHNER: In most countries, the Bank and the Fund will probably work alongside each other for a significant period of time. That probably won't be the case in the emerging market economies; there, it will be more episodic, with the Fund involved temporarily. But in the transition economies, in the poorest countries, the two will likely be there alongside each other, working together, for a long period of time.

The Fund will do the basic macro framework, including exchange rate policy, that helps determine whether a country grows or whether money stays in that country or not. And the Bank will do the long-term investments in development policy to improve the quality of such public goods as health care, education, and agricultural development.

In the financial sector, the Fund and the Bank work together effectively, particularly in designing a program to strengthen a country's financial system.

Q: Where do the regional development banks fit into the division of labor?

GEITHNER: The World Bank and the regional development banks need to sort out region by region, country by country, what things the Bank should be doing and what things the development banks should be doing. Everybody has an interest in figuring out a practical division of labor since resources are scarce, and they don't want to be all trying to do the same kind of thing. The development banks claim to be aware of the imperative of being complementary, not redundant.

Q: Should the development banks be lending to developing countries that already can borrow in world financial markets?

GEITHNER: The market access of developing countries is tenuous, fragile, vulnerable to reversal, partial, and expensive. This is true from Poland to Indonesia, from Brazil to Korea, and most of the poorest countries have no market access.

Even those countries that have established themselves in the private markets have at times found access disrupted or curtailed or limited or coming at a price that's very expensive with maturities that are very short. The experience of the past five years should, I think, demonstrate that the basic case for development banks laid out in the Bretton Woods conference in 1944 is better today than it was then because the world is more integrated, despite the fact that the private capital markets are now so big.

Q: What is the next step in the IMF/World Bank-managed Heavily Indebted Poor Countries (HIPC) debt relief initiative?

GEITHNER: Even though 22 countries have begun to benefit from the debt relief initiative, it is still in its early stages. The key objectives of the initiative are to put in place durable changes in how the IMF and the World Bank set development priorities and define policy conditionality and to change the way the beneficiary governments make decisions about how they use their resources. There needs to be a redirection of the economic policy priorities in these countries, new mechanisms for accountability and for greater participation by civil society, and a redirection of resources from debt relief to investment in core development priorities.

Looking ahead, the donor countries, including the United States, need to be very careful about their lending to the HIPC beneficiaries. All the major donor governments have bilateral lending programs in support of exports, including agricultural exports and things like that. It's very important that those bilateral agencies not push money on these countries at market rates in a way that makes their debt burdens worse.

The United States has encouraged other donor countries to commit to provide most of their development assistance as grants. That's something the United States did a long time ago. There is also a move to have more World Bank assistance for the poorest countries provided as grants, particularly to the highly indebted nations.

Note: The opinions expressed in this interview do not necessarily reflect the views or policies of the U.S. government.

❑ MULTILATERAL DEVELOPMENT BANKS IN A CHANGING GLOBAL ECONOMY

By Nancy Birdsall, Senior Associate, and Brian Deese, Junior Fellow, Carnegie Endowment for International Peace

Despite the "quantum increase" in private capital flows to developing and emerging market countries, there are still good reasons for the multilateral development banks (MDB) to continue their activities in those economies, say Nancy Birdsall and Brian Deese of the Carnegie Endowment for International Peace.

The new private flows — mostly to middle-income developing countries — are highly susceptible to reversal, and, in difficult times, the private loans may be unavailable or too costly. Hence the MDBs serve as a backup, note Birdsall — a former Inter-American Development Bank executive vice president — and Deese. MDB lending can help "crowd in" private investment, signal a country's commitment to reform, and perform other crucial functions, they say. Nonetheless, the MDBs need to make changes in their policies to adapt to the changing demands of their members.

The World Bank was founded in the aftermath of World War II as a vehicle for transferring investment capital from capital-rich to capital-poor countries. The initial idea was simple, brilliant, and perfectly adapted to the opportunities and constraints of the immediate postwar period. It was to create an institution that would borrow cheaply, backed by the guarantees of the United States and other non-borrowing capital-rich sovereign members, so as to lend at low rates to capital-poor governments. By the mid-1960s, the Inter-American, Asian, and African Development Banks had been set up along the same lines. In the early 1990s, with the end of the Cold War and the entry of the former Communist economies into the market system, came the European Bank for Reconstruction and Development.

But times have changed. The 1990s were not particularly easy on the World Bank and its sister regional banks. The forces of globalization have put them in a squeeze. Globalization has brought a quantum increase in private capital flows to most middle-income countries in Latin America, East Asia, and Eastern Europe and to a few low-income countries such as China and India. That has raised serious questions about the original mission of the

multilateral development banks — transferring investment capital from capital-rich to capital-poor countries. At the same time, government shareholders, often led by the U.S. government, have increased their demands on the banks — to deal not only with growth and development, but with poverty reduction, debt management, financial crises, post-conflict reconstruction, donor coordination, and the management of global environmental programs. These additional mandates, the increasing cost of "safeguards" such as environmental impact analysis, and a general shift away from large infrastructure investments to smaller, "softer" projects in the social and environmental areas and the rule of law, have raised the cost of doing business and threaten the long-term profitability that large, simpler projects brought. They have also contributed to an apparent loss of focus that has undermined the banks' political support.

Two additional issues in the 1990s were also lightning rods for criticism of the MDBs. In the poorest countries, accumulation of unmanageable debt to the MDBs (along with other official creditors) raised serious questions about the effectiveness of multilateral loans. And MDB participation in financial rescue packages for Mexico in 1995, East Asia in 1997, Russia in 1998, and Brazil in 1999 was heavily criticized. Some argued these rescue packages contributed to moral hazard and bailouts of private creditors; others saw them as kowtowing to U.S. or other major shareholders' narrow interests; while still others viewed them as occasions for unwarranted and unreasonable loan conditionality.

As with democracy (recalling Churchill's famous point), none of the relevant parties (nowadays "stakeholders") has been happy with the performance of the banks in the last decade. But apparently the owners of the banks, the member governments, saw no better institutional alternatives for a growing number of global finance and development tasks.

Then in March 2000 came the report to the U.S. Congress by the International Financial Institution Advisory Commission, better known as the Meltzer

Commission, after its chairman Allan H. Meltzer. It recommended that the MDBs withdraw completely from middle-income countries with significant access to private capital (the commission defined “middle income” countries as having per capita incomes over \$4,000 or an investment grade sovereign credit rating). It also called for the World Bank to abandon lending altogether to the poorest countries and become a grant-giving World Development “Agency.” Those recommendations reflected growing skepticism about the continuing relevance of the original logic of the banks, both for transfer of capital to relatively high-income countries (Korea, Poland, Argentina, Brazil) and for continuing their bank-like functions in the low-income countries. Indeed, as the new Bush administration formulates its approach toward international finance, it is a good time to revisit questions about the multilateral development banks. As the global environment changes, what is, in fact, the rationale for the MDBs’ existence? Should they do less or more? If there is a rationale, what changes are needed in their financial and other policies to make them more effective in the changed environment?

DON’T SCRAP THE BANKS

There are good reasons to sustain the MDBs as lending institutions in the developing world. First, the Meltzer Commission’s idea to abandon all activity in the middle-income countries is boom-centric. Private capital flows are strongly pro-cyclical, and, despite relatively high incomes, emerging economies are still susceptible to external and internal shocks that trigger rapid reversals of inflows. Today, countries such as Brazil, Mexico, Thailand, and South Africa can borrow from private banks and the global capital market. But when times are tough in world markets, their access to private credit is by no means assured. For those who continue to have access, the costs skyrocket. For this reason Argentina avoided borrowing altogether for much of 1998.

Paul Volcker, former head of the U.S. Federal Reserve System, has characterized emerging market economies as small boats in a turbulent sea. Even with a competent crew and a seaworthy vessel, a big storm can sink a small boat. One sign that an economy is a small boat is the fragility of its hold on an investment grade rating. Colombia lost that rating last summer. Venezuela’s investment grade rating of a decade ago disappeared well before its recent political troubles.

Second, even small amounts of MDB lending can be critical to “crowd in” private investment, as long as the economic fundamentals in recipient countries are sound. MDB lending is focused on strengthening the institutional capacity and policy-making tools in developing countries to create an environment that is conducive to increased private investment. Development investments — in schools, roads, banking supervision, and municipal reform — help create a positive climate for increased private investment.

MDB financing also provides a signal to the private market of a country’s medium-term policy commitment and institutional capacity. This can be important for small economies, where the costs to the private sector of tracking local policy and institutions — such as in transportation or banking — is relatively high. For those economies the tacit endorsement MDB lending provides can help attract private capital. Of course it is possible to separate the signaling function from lending, as rating agencies such as Moody’s and Standard and Poor’s do. But the detailed involvement of the MDBs in preparing the projects they finance means they are seen as having better information than they otherwise would.

Finally, the MDBs can advance the process of reform within countries by helping catalyze a dialogue among different interest groups — between government and the democratic opposition, between the central and local governments, between civil society and government. The lending process gives them a convening power to bring together actors and to provide a forum for coordination and dispute settlement. Their convening power reflects their being relatively independent brokers with global expertise in what is best practice on a wide range of policy and technical issues.

BUT END “BUSINESS AS USUAL”

This is not to say there is no need for change if MDB financial and other policies are to adapt to changing demands. What changes might make the MDBs more useful and their activities more sustainable and cost-effective in the changing global economy? Here are a few.

Differentiate pricing with an eye on profitability: For all public sector loans, the World Bank and the regional development banks use cooperative pricing. Every borrower faces the same interest costs and, for most part, has the same repayment period (e.g., for the World Bank, usually 15 to 20 years including a four- to five-year grace

period). With a more flexible pricing regime, the banks could adapt to the different (and increasingly divergent) needs of countries. MDB pricing could become more situation-, country-, and product-specific. In the medium term, that could enhance the finances of the institutions and reduce their need for increased capital. Higher interest rates for larger, fast-disbursing loans are one example. (In a heretofore exception to the general rule, the World Bank and the Asian Development Bank charged higher interest rates for their 1998 emergency loans to Korea.)

More radical (and controversial) would be a decision to key interest charges to countries' per capita income, for example, charging higher rates to higher-income countries. Note that all rates are subsidized through the guarantees of the non-borrowers against the liabilities of the institutions; the subsidy would be smaller for higher-income countries were they to pay higher but still subsidized rates. Higher rates for higher-income countries would bring MDB rates closer to the market, decreasing any chance that MDB financing would crowd out private investment and encouraging self-graduation as the financial advantage of MDB borrowing to the countries declined. The Meltzer Commission's recommended automatic graduation (at \$4,000 per capita income); fails to allow for differences in institutional readiness and for the benefits of MDB dialogue and advice that even higher-income countries might want to exploit — but should also pay for. Finally, higher pricing would encourage a more efficient, competitive, and client-oriented bureaucracy to sustain adequate demand from these more creditworthy borrowers.

Similarly, lending maturities could be more flexible. Why should countries have to take a 15-year loan if good debt management makes a 10-year loan optimal?

Deal with emergencies: Beginning with Mexico in 1995, the MDBs have been involved in rescue packages in emerging market economies. The Meltzer Commission concluded that the MDBs should not participate in any form of crisis lending and should leave all responsibility to the IMF. Yet the MDBs have played, and should continue to play, an important role in helping countries recover from economic crises. MDB emergency loans were conditioned on internal structural changes in the areas of financial management and social safety nets, and capitalized on the emergencies to establish stronger monitoring and evaluation capabilities and supervisory systems in these countries. Only the most efficient social

sub-programs were targeted for funding to support safety nets.

Emergency lending puts a potential strain on the banks' capital resources, however. One option is to charge more for these loans — as in the Korea example. A second is for the banks to create a contingent lending instrument. That would help prevent emergencies by reassuring private creditors of adequate country liquidity in the event of shock. As lending would (ideally) not actually be triggered, the banks would need to charge countries the equivalent of an insurance premium or guarantee fee to cover the banks' costs of carrying the potential loan on their books.

Don't end, but do fix, conditionality: Critics argue that MDB conditionality has undermined "ownership" of reform. But this frames the argument as one of ownership versus conditionality. In fact, given ownership, which is necessary for reforms to be sustained, conditionality can be complementary. If ownership is there — by governments that are accountable to their citizens — then agreements, understandings, and, yes, "conditions" can help governments signal to local and foreign investors their own medium-term commitment to sustaining their reform programs.

But once conditions are agreed, the MDBs must enforce conditions, including via cutoff of disbursements against loans. Lack of enforcement in the past has undermined the banks' effectiveness. In the poorest countries, mostly in sub-Saharan Africa, the result has been a lot of lending and a lot of debt without much in the way of development results. Enforcing conditionality means in the end that lending will be much more selective across countries. Big lending programs will be confined to countries that have the policy commitment, the minimal institutional capacity, and the public support to make them work. Elsewhere, the MDBs will have to stay engaged without lending (and the administrative and human resource costs of such engagement will have to be financed by "profits" on loans to other countries).

Seize an opportunity in the HIPC initiative — selectivity: The HIPC (Heavily Indebted Poor Countries) initiative is another in a long series of debt relief programs for poor countries. But it is the first to include reduction of heretofore untouchable multilateral debt. There are legitimate concerns about the HIPC program: that it is too small in relation to the countries' tremendous development needs and may eat into future

donor allocations; and that it provides no guarantee that forgiven debt will be translated into increased domestic spending on peoples' needs, especially in education and health.

But the initiative does have one clear advantage. There is good evidence that once recipient countries have accumulated high debt to multilateral institutions, all the donors go on lending — independent of country policy and capacity — apparently to ensure that the high-debt countries avoid falling into arrears to the multilaterals. HIPC thus represents an opportunity to correct an alarming trend of collapsing policy selectivity in countries with high multilateral debt. Even without additional donor resources, debt relief, by allowing donors to be selective, would ensure more funds for countries with good policies and adequate institutions — and, of course, fewer for countries with bad policies and inadequate institutions. A return to selectivity in the donor community could create a virtuous circle by crowding in private flows to good-policy/low-debt countries.

The HIPC program appears to be necessary to ensure this result. But it is far from sufficient. In the future, all the donors, including the MDBs, have to be tougher — keying new lending much more to achievements than to promises.

Re-juggle representation in these finance “clubs”:

Governance of the MDBs has been effective (compared to the one-country one-vote system in the United Nations) because decision-making has been relatively well aligned with financial responsibility and burden. The non-borrowers, especially the United States, have had more votes and more power because their paid-in and callable capital provided the basis for the banks' ability to borrow at low rates and thus lend at low rates. As the global economy has changed, however, two issues arise.

First, there is a growing discrepancy between the real costs associated with capital ownership in the MDBs and the power that countries have in the decision-making process. The cost to the United States associated with its capital or ownership shares in the World Bank amounts to the opportunity cost for U.S. taxpayers associated with

the capital they hold in the bank. The actual annual cost of these contributions, however, is tiny, because no new appropriations are needed to support the regular World Bank operations, and the guarantee to cover World Bank debt in the extremely unlikely event of a default is virtually invisible to voters.

Second, the MDBs are increasingly embedded in a larger system of global governance. In the larger system, with growing interdependence, emerging market economies have become central actors, affecting as well as affected by the global financial and economic system. They ought to assume more responsibility and have more say in the MDBs, which are, after all, central forums for global economic decision-making. The MDBs would better be leaders than laggards in finding ways to increase the representation of borrowers in their own governance.

In short, representation and risk-sharing in these clubs also need to adjust to changing realities. In the case of the World Bank, for example, in the next decade the single largest shareholder — the United States, with about 17 percent — could lead an effort of the G-7 members to sell some of their shares so that countries like China, Brazil, and India could increase their shares, their voting power, and, literally, their ownership of the bank.

A BETTER FUTURE?

The World Bank and the regional banks are fundamentally membership organizations, or finance “clubs,” that exist because the sum of the membership's credibility reduces borrowing costs for all members below what they would pay on their own. A better future for the MDBs is to move in the direction of becoming dynamic “clubs.” That requires that they become more flexible and responsive in general, and more accountable to and representative of their borrowers. □

Note: The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

□ REGIONAL PUBLIC GOODS IN INTERNATIONAL ASSISTANCE

By Lisa D. Cook, Research Associate, and Jeffrey Sachs, Director, Center for International Development at Harvard University

Sorely deficient in the existing frameworks for developing country assistance is the provision of regional public goods -- which can range from research on tropical disease and agriculture to environmental protection, public health, and law enforcement, say authors Lisa D. Cook and Jeffrey Sachs with the Center for International Development. The multilateral development banks can help, they say, but much needs to be done to build the structures to provide regional public goods. Sachs is also a professor of international trade at Harvard.

One of the basic lessons of modern economic development is that the public sector should focus its scarce resources on those activities that will not be provided adequately by private markets. International development assistance should have a similar focus, supporting desirable activities — the so-called public goods — that will not be provided adequately either by private markets or by the aid recipient governments.

During the 1980s and 1990s, aid programs increasingly became a kind of surrogate national government, with outside agencies (usually led by the Bretton Woods institutions) attempting to foster the provision of public goods at the local and national levels. The basic motivation, sometimes explicit but more often implicit, was that national governments could not be trusted to provide public goods within their own territories. In this vision, the International Monetary Fund (IMF) and the World Bank would lead reform on behalf of the national polity because the aid recipient government was too weak, too corrupt, too prone to backsliding, or too incompetent to do the job on its own. Aid was closely tied to policy conditions to ensure that the recipient government implemented appropriate policies and provided appropriate public goods. In principle, if the conditions were not met, the aid would be cut off.

A large number of studies and case histories have shown that this model is deeply flawed. First, money is fungible. Even if foreign aid agencies succeed in ensuring that particular funds are directed toward particular purposes, they cannot be sure that the aid funds are truly

incremental in support of those purposes. An outside agency may desire to boost spending on education, only to find that the aid dollars directed toward education are offset by a reduction in the government's own budgetary outlays on education.

To ensure that aid really delivers public goods that otherwise will not be provided, donors need to rethink their strategies. Without a doubt, there is one hugely neglected area of public goods: goods that can only be provided effectively at the regional level (defined here as a grouping of neighboring governments) or on a global scale. This is an area where the multilateral development banks should play a part.

THE CASE FOR REGIONAL PUBLIC GOODS

It is easy to offer examples of public goods that must be delivered on the regional level with a number of national governments acting in concert. A non-exhaustive list includes:

- **Environment.** Many environmental management issues inherently cut across national boundaries. Examples include watersheds, many kinds of pollution control (acid rain, effluent runoffs), natural resources, and scientific research on ecozones.
- **Public health.** Control of infectious disease inherently involves cross-border issues because migrant workers typically are pathways for the spread of disease. This is emphatically true for HIV/AIDS in Africa — as well as for more traditional and devastating diseases such as malaria. Large migratory populations in many parts of the developing world also mean that national health systems are overwhelmed by demands from non-nationals. Basic research on diseases endemic to a particular region raises issues of regional cooperation, again because of the lack of ability and incentive for any one country alone to bear the costs of effective research and development. The incentives for private pharmaceutical companies to develop effective drugs and vaccines likewise depend on the intellectual property rights regime governing an entire affected region.

- **Financial market regulation and stabilization.** Cross-border links between financial markets are inevitable because these markets seek increasing returns to scale in their operations. These links raise important regulatory questions because the quality of oversight of financial markets in one country will sharply affect financial markets in neighboring countries. Regional groupings of governments are increasingly looking for ways to harmonize their financial regulations and to ensure more uniformed monitoring of their financial policies.
- **Transport.** The coordination of cross-border transport networks is crucial to economic development, yet extremely difficult to manage in practice. In general, the location and maintenance of roads is largely driven by local politics rather than by the optimization of the transport network. Similarly, a single national port facility may serve a number of countries, raising claims for regional governance over basic utilization of the port.
- **Telecommunications and data transmission.** Satellite systems and fiber-optic cables service regions rather than nations. The regional scale of competition among providers of telecommunications services will determine, to a significant extent, the pricing and quality of service within any individual nation.
- **Power grids.** Power systems almost always require regional cooperation, management, and financing. This is true in the case of hydroelectric power, regionally linked power grids, and oil pipelines that cross national borders.
- **Agricultural research and extension.** Agricultural research has profound public goods aspects that often inhere to the regional rather than national scale. Similar regional issues inhere to a wide range of agricultural concerns: weather monitoring stations, weather modeling and forecasting, crop insurance, conservation research and management, and biotechnology research.
- **Law enforcement.** Many types of criminal activities operate on a regional scale, often with one country serving as a transit point or safe haven for criminal operations in another country. In many activities, law enforcement is only as good as its weakest point. A road from an interior state to a coastal port will be nearly useless to the interior if the road is under-policed in the coastal state.

One extremely pertinent general category of regional public goods is basic scientific research on regionally focused problems, such as health, agriculture, and environmental management. Recent research has shown that most developing countries, and particularly those in the tropics, face profound problems in public health, agriculture, and environment that require new scientific and technological approaches that cannot simply be “borrowed” or taken from advanced economies. Advanced country scientific research pays relatively scant attention to tropical problems such as malaria, schistosomiasis, helminthes, and tropical agriculture. Moreover, health and agricultural technologies developed in advanced economies are not directly applicable in the tropics. Scientific funding for tropical health, agriculture, and environmental research is a pittance compared with the funds mobilized for temperate zone problems.

THE DELIVERY OF REGIONAL PUBLIC GOODS

Regional public goods are generally underprovided — and often completely neglected. While transactions costs for public goods at the national level are already very high, at the regional level they are often insurmountable. Why?

- Neighboring states are often in direct military conflict, and thus are busy uprooting regional infrastructure (cross-border bridges, roads, power systems) rather than creating it, or they are in diplomatic competition (“cold war”) when they are not in outright military competition.
- Regional bodies are often politically weak and dramatically underfunded by participating national governments.
- International assistance programs are mostly directed to national governments rather than supranational entities. This is partly because of the charters of aid-granting institutions, both at the international level (i.e., the IMF and the World Bank) and at the national level (i.e., donor agencies in high-income countries). It is also the result of the fact that the political weakness of regional bodies becomes self-fulfilling. Donor agencies do not give to “weak” regional bodies, and as a result those bodies do not gain strength, capacity, and financial viability.

MODEST EVIDENCE ON THE PROVISION OF REGIONAL PUBLIC GOODS

While data are scarce, the information that is available

indicates that there is precious little funding for regional public goods though there are some notable cases and success stories.

Data from the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) reporting system, the most comprehensive source on bilateral assistance, show that net development assistance — from countries and multilateral institutions — for regional aid programs amounts to a very small portion of total assistance. In the case of Africa, in 1996 it was just 7.4 percent.

While the World Bank's charter requires that it lend to member countries, some Bank projects in recent years have taken on a regional public goods character. This has been accomplished through the coordination of country-level programs, jointly implemented, with identical financing arrangements, and bundled and approved by the Bank's Executive Board as a single venture. Examples include agricultural research by the Consultative Group on International Agricultural Research (CGIAR); water projects such as the Aral Sea Basin Program for Water and Environmental Management, which coordinated activities among the former Soviet central Asian states; disease control efforts such as the Onchocerciasis Control Program, which operates among several smaller West African countries, and infrastructure projects such as the rehabilitation of the Abidjan-Ouagadougou-Kaya railway. While this kind of lending appears to be small, there have been notable successes — such as the Onchocerciasis Control Program.

While regional development banks, such as the Inter-American Development Bank (IDB) and the African Development Bank (AfDB), would seem to be ideally suited to help finance the provision of regional public goods, this generally seems not to be the case. These banks have increasingly modeled their lending to match the country-level projects of the World Bank. The reported AfDB allocation of African Development Fund loans and grants during 1974-97 appears to show that 98.1 percent went to country programs and just 1.9 percent for multinational projects. This is especially ironic for a region rife with regional problems including infectious disease, cross-border conflict, the need for transport links, and so on.

The IDB seems to have a growing portfolio of regional projects, though it is still modest relative to overall lending. As of 1997 the IDB had made 58 regional loans

totaling \$2,770 million, with cumulative disbursements of \$1,710 million. As total IDB disbursements were \$61,400 million, regional projects amounted to 4.5 percent of the total. In 1997 the IDB made 18 regional loans totaling \$833 million in commitments, compared with \$6,020 million in overall loans. Thus, regional loans accounted for 13.8 percent of the total, suggesting an increase in region-based lending. Regional projects in 1997 included:

- Regional infrastructure (Bolivia-Brazil gas pipeline, Central American electric interconnection system).
- Regional financial markets (credit program for the Central American Bank for Economic Integration).
- Research and development (technology program for agriculture and natural resource management, digital mapping and geographic information systems).
- Regional policy reform (support for the Free Trade Area of the Americas initiative).
- Regional training initiatives (fellowships and other support for advanced training of public officials).

The United Nations was established in large part to solve problems of international coordination and to enhance regional and international cooperation. The 81 U.N. organizations are core providers of regional and international public goods. Outstanding examples include the World Health Organization; the U.N. High Commissioner for Refugees; the United Nations Educational, Scientific and Cultural Organization; the United Nations Development Program (UNDP); and other efforts for dispute resolution, peacekeeping, and so forth. Yet even with the United Nations it is not possible — on the basis of published data — to ascertain the actual flow of funds to national-level programs and those that are truly regional or international.

OPERATIONAL STEPS FOR THE NEAR TERM

This article is a very preliminary look at this issue, meant to spur further analysis and action. We recommend the following five operational steps in the near term:

- Coordination between UNDP, the World Bank, the OECD, and regional development banks to develop a more accurate accounting of the allocation of activities between national projects and regional projects.

- Development of analytical methods within UNDP, the World Bank, and the OECD on the allocation of aid flows between public goods, private goods, and income transfers.

- Review of the governing principles of the World Bank, the IMF, U.N. agencies, regional development banks, and principal bilateral donor agencies to examine biases or legal limitations on the provision of aid to regional projects and regional bodies.

- Canvassing by UNDP of regional bodies (such as the Southern Africa Development Community, the Economic Community of West African States, Mercosur, the Andean Group, the Association of South East Asian Nations, and so on) to determine their operating budgets, regional projects under their supervision, and support received from national and international agencies.

- A series of UNDP workshops around the world to explore policy options for increased regional public goods provision in key areas such as infrastructure, public health, and research and development.

Skeptics of regional public goods provision repeatedly point to the current weakness of regional bodies in fulfilling the mandate of public goods provision. But regional bodies will inherently be weak until they are given both the mandate and the financing to do more. The European Union found its origins in decisions by the United States to channel postwar reconstruction aid through a regional body (the Organization for European Economic Cooperation) in the context of the Marshall

Plan. The Marshall Plan, together with a group of European visionaries, created European regional cooperation and public goods provision by pressing the war-torn continent to work together as a condition for receiving U.S. assistance.

Our common longer-term goal should be to work toward a reassessment and redesign of the international aid strategy in general, to make sure that international assistance serves the most important needs of the developing world by focusing on activities that cannot be addressed by national and local governments or private actors. □

Note: The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

(This article is an abridgment of "Regional Public Goods in International Assistance" by Lisa D. Cook and Jeffrey Sachs, from *Global Public Goods: International Cooperation in the 21st Century*, edited by Inge Kaul, et. al., copyright 1999 by the United Nations Development Programme. Used by permission of Oxford University Press, Inc.)

□ THE IMF/WORLD BANK FINANCIAL SECTOR ASSESSMENT PROGRAM

By Paul Hilbers, Deputy Chief, Financial Systems Surveillance I Division, Monetary and Exchange Affairs Department, International Monetary Fund

The financial crises of the late 1990s underlined the importance of sound financial sectors to countries' macroeconomic stability and — in an increasingly integrated world — to the broader international financial order.

The Financial Sector Assessment Program (FSAP), established by the International Monetary Fund (IMF) and the World Bank in 1999, specifically looks at countries' financial sectors, assessing strengths and vulnerabilities in order to reduce the potential for crisis, writes Paul Hilbers, deputy chief of the IMF's Financial Systems Surveillance Division.

Financial crises are hardly rare. Since 1980 they have flared up in about three fourths of the world's countries, including many industrialized nations. The 1997 Asian financial crisis, however, highlighted how critical a nation's financial sector is to its macroeconomic stability and — in an increasingly integrated world — how important sound financial systems are for maintaining orderly international financial conditions.

In the wake of the financial crises of the late 1990s, the International Monetary Fund and the World Bank launched an initiative, known as the Financial Sector Assessment Program (FSAP), to assess members' financial systems. Financial systems include the whole range of financial institutions, such as banks, mutual funds, and insurance companies, as well as the financial markets themselves (e.g., securities, foreign exchange, and money markets). They also include the payments system and the regulatory, supervisory, and legal framework that underlies the operations of the financial institutions and markets. The FSAP seeks to identify financial system strengths and vulnerabilities and to reduce the potential for crisis, thereby contributing to efforts to promote national and international financial stability and growth.

The FSAP draws heavily on the Fund's and the Bank's earlier financial sector work. The IMF has traditionally focused on the two-way linkages between financial sector soundness and macroeconomic performance, on the one

hand, and support for policies that reduce the likelihood of financial crises and lessen the severity of those that do occur, on the other. These include policies to improve the national authorities' oversight of financial institutions and markets to reduce excessive risk, improve these institutions' risk management, and promote sound intermediation of financial flows. They also involve improvements in macroeconomic policies, such as monetary and fiscal policy, with the aim of making the macroeconomic environment more stable and hence more conducive to financial sector stability.

The Bank has focused on the importance of the financial sector to development and poverty reduction. A well-functioning financial system has been shown to be important for economic growth, which is a key element for poverty reduction. In this connection, the Bank has traditionally supported the development and strengthening of countries' financial sectors.

The FSAP seeks to alert countries to likely financial sector vulnerabilities and to assist the Bank and the Fund — and the international community more broadly — in designing appropriate assistance. The quality of the assessments relies importantly on the analytical capability and judgment of the joint team of Bank and Fund staff that conducts them. The staff members draw on their own experience and that of experts from a range of cooperating central banks, national supervisory agencies, and international standard-setting bodies (e.g., the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, and the International Organization of Securities Commissions) and other institutions. These outside experts provide a valuable element of peer review to the analysis, especially with regard to the observance of financial sector standards and codes.

The FSAP program was launched in May 1999 on a trial basis. It initially involved a dozen countries that ranged widely in the degree of development of their financial systems, including industrialized countries (such as Canada and Ireland), emerging markets (such as South

Africa), and developing economies (such as Cameroon and El Salvador). The program has found strong support in the participating countries and the international community; it is now likely to become a permanent feature of the work of the Fund and the Bank.

COMPONENTS OF THE FSAP

The FSAP teams' examination of the strengths, risks, and vulnerabilities of a country's financial system has three main components: (1) an assessment of stability of the financial system, including macroeconomic factors that could affect the performance of the system and conditions in the system that could affect the macroeconomy; (2) an assessment of the extent to which relevant financial sector standards, codes, and good practices are observed; and (3) an assessment of the financial sector's reform and development needs. The team identifies actions that would strengthen the financial system, together with any needed contingency plans, and provides a detailed evaluation of the monetary and fiscal implications of these actions.

For example, an asset price bubble in a country (in real estate or equity prices, perhaps) could leave banks or other lenders exposed to potentially severe losses if those assets were the main security backing a significant proportion of loans. In such a case, the FSAP team would first try to determine whether there was indeed a price bubble, what caused it, and whether the authorities could and should act to address it. At the same time, the team would examine whether lending institutions were unduly reliant on collateral when making lending decisions, whether they had adequately considered the possibility of a fall in asset prices when valuing collateral, and whether they have adequate levels of capital. The team would also examine whether official supervisors were adequately monitoring these risks and advising lending institutions on their practices. If weaknesses in any of these areas were identified, then the team would make recommendations for dealing with them.

Sustained financial system health depends in large part on an adequate regulatory environment and incentive structure. An FSAP assessment will look at the financial sector's legislative underpinnings to evaluate regulatory capacity and practice. This will include a systematic assessment of compliance with the Basel Core Principles for Effective Banking Supervision, transparency practices in monetary and financial policies, and — if relevant — standards for securities markets, insurance, and payment

systems. Other legal and institutional issues that bear on the financial sector may also be reviewed.

In addition to judging the system's present economic performance, the authorities' strategic vision for system development may need to be considered. In developing countries with underdeveloped financial markets, special attention may need to be given to the potential for development of capital markets and contractual savings (including insurance and pension funds). These parts of the financial system will contribute to the health of the whole system, as well as supporting economic growth.

These various components of an FSAP assessment require examination of a broad range of areas. In each of these areas, the assessment must take into account the structure of the country's financial industry and draw on international standards, best practices, and accumulated experience of the Bank, the Fund, and other international institutions, as well as on market information. While this range of areas is extensive, Bank and Fund staff have substantial background knowledge gained from working for national governments or private sector institutions, as well as from the two institutions' previous work. This permits an identification of those issues that are most significant in a given country, so as to focus the work under the FSAP.

METHODOLOGIES AND TOOLS

Some of the FSAP teams' methodologies and tools have been developed especially for the program. In particular, macroprudential analysis, including stress tests and scenario analysis, coupled with improved methods for judging observance of standards and codes, have supported and strengthened the consistency and quality of analysis for this program.

Macroprudential analysis aims to highlight the linkages between macroeconomic performance and financial sector soundness. Macroprudential indicators comprise both aggregated microprudential indicators of the health of individual commercial banks and other financial institutions (such as capital adequacy, earnings, and solvency) and macroeconomic indicators associated with financial system soundness (such as volatility in exchange rates and interest rates). Aggregated microprudential indicators have been found to be primarily contemporaneous or lagging indicators of financial sector soundness. Macroeconomic variables, on the other hand, can signal imbalances that affect financial systems, and

they tend to be leading indicators. Practice has shown that financial crises usually occur when both types of indicators point to vulnerabilities, that is, when financial institutions are weak and face macroeconomic shocks.

Stress tests and scenario analysis help in determining the impact of macroeconomic shocks, structural changes, and financial sector innovations on the profitability and solvency of financial institutions. They provide a useful and flexible framework for the identification and analysis of financial sector vulnerabilities. Under the FSAP, the kinds of tests and models used vary depending on the structure and characteristics of the financial system in the country being examined and the availability of data. For example, a country that mostly exports primary commodities may be more prone to suffer from volatility in export prices and earnings. In such a situation, it may be appropriate to focus more on possible external shocks than on other shocks. Further, the scale of the potential external shock that is used as the basis for a stress test may be greater for such a country. Conducting stress tests and scenario analysis in cooperation with the authorities has also proven valuable in helping to build risk management capacity in member countries and to encourage routine stress testing by country officials of their financial systems.

Assessments of the observance and implementation of relevant financial sector standards and codes in the FSAP serve to identify gaps in financial sector regulation and transparency practices, and hence reform and development needs in the area covered by the standard. In addition, standards assessments provide input for the overall stability assessment of the financial system and help countries evaluate their own system against international benchmarks.

Experience to date confirms that standards assessments are an important part of the FSAP. High-quality supervision and monitoring of financial institutions and markets is critical to the stability of financial systems that are integrated into global markets and that face a variety of financial innovations and shocks. Standards assessments are also helpful in identifying and implementing regulatory and operational reforms needed for the development of countries' financial systems over time and their integration into global financial markets. On the other hand, standards assessments play a more limited role in identifying immediate financial systems vulnerabilities, since these are influenced by a host of macroeconomic and structural factors. Such assessments

need to be combined with a broader range of information and analysis to obtain a complete picture of relevant risks and vulnerabilities required for an overall stability assessment, as is the case under the FSAP.

Assessments conducted under the FSAP are not ends in themselves. The results of this diagnosis must be integrated into the work of the Bank and the Fund. In the case of the Fund, a Financial System Stability Assessment (FSSA) is prepared based on the FSAP findings. FSSAs focus on strengths, risks, and vulnerabilities in the financial system in a broader macroeconomic and macroprudential context than previously, resulting in an overall stability assessment. They are passed to the Fund's Executive Board as part of the documentation for the Article IV consultations — the annual discussions on macroeconomic policies that the Fund holds with its member countries. Thus, the FSSAs link the FSAP and the monitoring of financial systems under Fund surveillance. Analyses conducted in the context of the FSSAs serve to focus on the likely consequences of alternative macroeconomic policy mixes and exogenous shocks and the implications of financial sector reforms for financial sector profitability, solvency, and liquidity.

From the Bank's perspective, the FSAP is part of the ongoing policy dialogue between bank staff and national authorities. The FSAP's diagnostic work provides a comprehensive assessment of a country's financial sector, which serves as the basis for the Bank's country assistance strategy and the provision of technical assistance. In addition, Bank staff produce Financial Sector Assessments (FSAs), which summarize the main points identified in the FSAP, with emphasis on those related to developing and strengthening institution-building in a country's financial system. Authorities can decide to publish the FSSAs and the FSAs. They may separately decide to publish summaries of the assessments of compliance with financial sector standards as part of the so-called Reports on Observance of Standards and Codes (ROSCs).

LOOKING AHEAD

So far, experience with the FSAP has been positive. The FSAP has helped ensure that financial sector analysis becomes part of the core of economic policy discussions and has provided national authorities with a strategic framework for strengthening and further developing their financial systems. For instance, in some cases the linkages between high interest rates and nonperforming loans have

been highlighted, which has allowed a more considered analysis of the sustainability of high interest rates. In other cases, the FSAP has highlighted the need to reinforce banking supervision, improve financial sector legislation, reduce risks in payment and securities settlement systems, and strengthen sovereign debt management. Follow-up assistance has been provided, for example, with regard to the design of deposit insurance and the development of credit registries.

It is important to realize that the FSAP will not protect countries against all financial crises. Macroprudential

indicators, stress tests, and standards assessments can identify vulnerabilities, but they are not foolproof. Nonetheless, over time, the FSAP can reduce the incidence of crises by providing the authorities with a thorough and objective review of their financial sectors, by identifying weaknesses at an earlier stage, and by suggesting effective and timely policy responses. □

Note: The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

FACTS AND FIGURES

□ THE INTERNATIONAL FINANCIAL INSTITUTIONS

INTERNATIONAL MONETARY FUND (IMF)

<http://www.imf.org/external/index.htm>

The IMF, with a membership of 183 countries, was established by the original agreements reached at the Bretton Woods, New Hampshire, conference in July 1944 that were intended to shape the post-war global financial environment.

PURPOSE: The IMF was created to promote exchange rate stability, balanced growth in international trade, the establishment of a multilateral system of payments, and to provide temporary financial assistance to Fund members with balance of payments problems — with the intention of lessening the threat to the international system. Toward this goal, the Fund has three main functions. They are: surveillance of the IMF members' economies, with a special emphasis on exchange rate policies; providing financial assistance — in the form of credits and loans — to members with balance-of-payments problems to support adjustment and reform; and providing technical assistance for the implementation of fiscal and monetary policy.

The IMF is also a global center for research on international economic issues, annually publishing hundreds of papers, studies, and reports. These include the *World Economic Outlook* (WEO) reports released at the biannual IMF/World Bank meetings. The WEO was first published in 1980. More recently, the Fund has made available in both published form and on its Web site much important economic information about its own operations and finances and about member countries. This includes documents on the IMF's annual macroeconomic evaluations of each IMF member, known as Article IV consultations.

The Fund also sponsors conferences, seminars, briefings and other events on international economic issues.

All IMF members are eligible to call on Fund resources, including the major industrialized countries, which provide the largest amount of the funds. However, none

of the major industrialized countries have called on IMF resources since the 1970s.

The IMF was not originally given the specific task of helping to improve conditions in less developed nations. In the mid-1980s, however, the Fund began providing concessional assistance to the poorest countries, with the launching of the Structural Adjustment Facility, then the Enhanced Structural Adjustment Facility (ESAF). In 1999, the ESAF was expanded and renamed the Poverty Reduction and Growth Facility (PRGF). The IMF also assists the poorest nations through the Heavily Indebted Poor Countries (HIPC) debt relief program.

FINANCING: IMF members are assessed quota contributions. These totaled almost \$300,000 million at the end of 2000, reflecting a 45 percent increase in quotas that became effective in January 1999. The bigger a country's economy, the bigger its quota contribution and the larger that country's voting weight in IMF decisions. The United States has by far the largest quota. As of February 2001, the U.S. quota was equal to 17.63 percent of the total. This gives the United States voting rights in the IMF Executive Board that enable it to veto certain major policy issues such as quota increases and amendments to the IMF's Articles of Agreement. The next largest quotas are held by Japan, with 6.32 percent, Germany, 6.17 percent, and France and the United Kingdom, both with 5.1 percent.

IMF lending is divided into three kinds of arrangements, the regular IMF facilities, concessional assistance, and other special facilities.

By far the largest amount of lending is for the regular facilities. This comes from the IMF's General Resources Account (GRA), which all 183 IMF members are eligible to draw on.

The GRA facilities are the Stand-By Arrangement, to provide short-term balance-of-payments assistance, typically 12 to 18 months, with repayment completed within four years; and the Extended Fund Facility (EFF),

for long-term programs, typically three years, with repayment completed in four-and-a-half to seven years. As of February 9, 2001, there were 15 Stand-By Arrangements involving around \$17,320 million in IMF credits outstanding. The biggest stand-bys were with Argentina, amounting to about \$7,766 million, and Turkey, which was about \$5,545 million.

As of the same date, the IMF had EFF arrangements with nine countries involving around \$14,850 million. Indonesia is the largest recipient, with approximately \$10,838 million in outstanding IMF credits, followed by Ukraine, about \$2,032 million.

Concessional assistance accounts for the second largest amount of lending. The largest amount is under the Poverty Reduction and Growth Facility. Eighty low-income IMF members are eligible for PRGF lending. As of February 9, 2001, the IMF had PRGF arrangements with 34 countries, with total IMF credits outstanding of approximately \$5,797 million. The largest PRGF borrowers were Côte d'Ivoire, about \$545 million, and Zambia, \$1,127 million.

The creation of the PRGF in 1999 was intended to make poverty reduction a key element of IMF programs. While the facility's focus is to help support a country's balance-of-payments position, the lending is done in the context of a broader program to foster durable growth that will help raise living standards and reduce poverty. Loans are disbursed under three-year arrangements — subject to performance requirements and program reviews. The PRGF loans carry an annual 0.5 percent interest rate, with a five-and-a-half-year grace period, and are to be repaid in 10 years.

A second program for the poorest countries is the Heavily Indebted Poor Countries debt relief initiative. As of February 9, 2001, the IMF had committed approximately \$1,706 million to help 22 countries through this program that it jointly manages with the World Bank.

The third category is the IMF's three special facilities — all intended to provide short-term assistance under special circumstances. These are:

- The Compensatory Financing Facility (CFF), to help members hurt by temporary export earning shortfalls or excessive increases in cereal import costs. Repayments

must be made within four years. The CFF was established in 1963.

- The Supplemental Reserve Facility (SRF), to provide short-term help to countries hurt by "sudden and disruptive loss of market confidence." Repayments should be made within a year and a half, but can be extended to two-and-a-half years. An interest rate surcharge is levied to encourage early repayment. The SRF was established in 1997.

- The Contingent Credit Line (CCL). Countries that are basically economically sound can draw on the CCL as precautionary financing. The CCL has not yet been used. CCL loans are also to be repaid within a year-and-a-half, but can be extended to two-and-a-half years. The CCL was established in 1999.

During the last 40 years, the IMF launched various other special facilities — in reaction to specific economic threats and conditions — that following regular reviews were eliminated or allowed to lapse because they had served their purposes or were seldom or never used.

WORLD BANK GROUP

<http://www.worldbank.org>

The World Bank, which has 182 members, was founded in 1944 at the Bretton Woods conference as the International Bank for Reconstruction and Development (IBRD) and has evolved into the World Bank Group, consisting of five associated institutions. They are: the IBRD, the International Development Association (IDA), International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID).

The World Bank also serves as a global center for research on economic issues, particularly on development in the poorest countries. The World Bank annually publishes several annual reports, including the *World Development Report* and *World Development Indicators* and hundreds of papers, studies, and other reports.

The Bank also sponsors conferences, seminars, and other events on development and economics.

International Bank for Reconstruction and Development (IBRD)

<http://www.worldbank.org/html/extdr/backgrd/ibrd/>

The IBRD provides loans and development assistance to middle-income and creditworthy developing countries. The IBRD is not a profit-maximizing organization, but it has earned a net income every year since 1948.

In fiscal year 2000, the IBRD loaned \$10,918.6 million, with the largest single amount — about one-fifth — allocated for public sector management. Loans in 2000 were less than half the amount the IBRD lent in the previous two years, when lending soared to record levels to help countries through the 1997-98 financial crises, according to the World Bank.

The size of a country's contribution to the IBRD is determined by the size of its economy relative to the world economy. The United States has the largest share — about 17 percent — which gives the United States the power to veto any changes in the Bank's capital base and Articles of Agreement, since 85 percent of the shares are needed to effect such changes. However, virtually all other matters, including the approval of loans, are decided by a majority of the votes cast by representatives of all members of the Bank.

International Development Association (IDA)

<http://www.worldbank.org/ida/>

Founded in 1960, IDA is the World Bank Group's concessional lending window. It provides long-term loans at zero interest to the poorest developing countries. IDA lends only to countries with a per capita income in 1999 of less than \$885. At present, 78 countries are eligible to borrow from IDA. Together these countries are home to 2,300 million people, comprising 53 percent of the total population of the developing countries. Today, 1,500 million of these people survive on incomes of \$2 or less a day, according to the IDA.

Some countries, such as India and Indonesia, are eligible for IDA assistance due to their low per capita incomes, but they are also creditworthy enough for some IBRD borrowing. A total of 23 countries that once received IDA assistance have grown prosperous enough to "graduate" from the program. These nations include Chile, China, Costa Rica, and Egypt.

IDA credits have maturities of 35 or 40 years, with a 10-year grace period on repayment of principal. There are no interest charges, but credits do carry a small service charge, currently 0.75 percent on undisbursed balances.

Since 1960, IDA has lent \$120,000 million to 106 countries. It lends, on average, about \$5,000 million to \$6,000 million a year for different types of development projects, especially for basic needs, such as primary education, basic health services, and clean water and sanitation. IDA also funds projects that protect the environment, improve conditions for private business, build needed infrastructure, and support reforms aimed at liberalizing countries' economies.

A small amount of IDA assistance is provided as grants.

IDA is funded through regular "replenishments." During the twelfth replenishment, the most recent, the U.S. share of total contributions was about 21 percent.

International Finance Corporation (IFC)

<http://www.ifc.org/>

The IFC was established in 1956 to encourage private sector activity in developing countries. It does this primarily by financing private sector projects with long-term capital in the form of equity and loans, helping developing world companies raise funds in international financial markets, and providing advice and technical assistance to businesses and governments.

The IFC charges market rates for its products and does not accept government guarantees. It also assists privatization projects. To get IFC financing, a company's project must be profitable for investors, benefit the host country's economy, and comply with certain environmental guidelines.

The IFC, which has 174 members, 26 of which are strictly donors, is the largest multilateral source of loans and equity financing for private sector projects in the developing world. It participates in an investment only when it can make a special contribution that complements the role of the private sector.

In fiscal year 2000, the IFC approved financing totaling \$5,800 million, including syndications and underwriting for 259 projects in 81 countries. Of these, 45.9 percent were in the financial services sector, followed by 23.3 percent in infrastructure. Nearly half of the amount,

\$2,720 million, was for projects in Latin America and the Caribbean, followed by \$1,060 million for projects in the Asia/Pacific region.

The amount of funds actually committed in fiscal year 2000 was \$3,900 million for 198 projects.

Multilateral Investment Guarantee Agency (MIGA)

<http://www.miga.org>

Created in 1988, MIGA has 154 members — 22 industrialized countries and 132 developing countries. The agency is designed to encourage foreign investment in developing countries by providing investment insurance against non-commercial risks. MIGA also provides assistance to help countries improve their capacity to attract foreign investment and disseminates information on investment opportunities on line through the IPAnet and PrivatizationLink Web sites.

MIGA is intended to supplement national and private agencies supporting foreign direct investment.

According to MIGA, as of January 1, 2000, the agency had issued more than 420 contracts to private investors for projects in about 70 developing countries, facilitating more than \$30,000 million in private investment. About one-quarter of MIGA's portfolio is in poorer countries only eligible for IDA loans.

International Centre for Settlement of Investment Disputes (ICSID)

<http://www.worldbank.org/icsid/>

The ICSID was founded in 1966 to help mediate disputes between governments and foreign investors. The center does not provide loans or grants. There are 149 countries that have signed the ICSID agreement.

MULTILATERAL DEVELOPMENT BANKS

Inter-American Development Bank (IADB)

<http://www.iadb.org/>

Established in 1959, the IADB has 29 borrowing members in Latin America and the Caribbean and 46 members in all.

The IADB Group is made up of the Bank, the Inter-American Investment Corporation (IIC), and the Multilateral Investment Fund (MIF).

The IADB's main functions include lending for public and private capital investment in the region, helping mobilize other funds for high-priority economic and social projects, and encouraging and supplementing private investment that contributes to economic development. The bank also provides technical assistance and serves as a hemispheric center for research on economic development issues.

IADB's cumulative lending and technical cooperation since its founding amounted to more than \$95,000 million as of the end of 1998, according to the bank.

The United States is the IADB's biggest contributor, accounting for about 31 percent of the bank's budget and 31 percent of the voting power in the organization. As of the end of 1998, the voting power was as follows: Latin America and Caribbean, 50.913 percent; United States, 31.080 percent; Canada, 4.088 percent; and nonregional members, 13.852 percent.

Inter-American Investment Corporation (IIC)

<http://www.iadb.org/iic/english/index.htm>

The IIC, an autonomous affiliate of the IADB, was established in 1986 to promote regional economic development by financing small and medium-scale private enterprises. In 1999, the IIC contributed \$192 million to help fund 22 projects in 12 countries. Of the total amount, 11 percent was spent for equity contributions and 89 percent for loans.

Multilateral Investment Fund (MIF)

<http://www.iadb.org/mif/index.htm>

The MIF was created in 1993, as a key element of the U.S. Enterprise for the Americas Initiative, to promote investment reforms and encourage private sector development in the Latin American and Caribbean regions. The MIF provides technical assistance grants to support market reforms; build the capabilities and skills of the work force; and assist micro, small, and medium-sized enterprises. The MIF also acts as a catalyst to attract capital to the small business and microfinance sectors by investing in special equity funds in community

development, venture capital, technology, and business partnerships.

Asian Development Bank

<http://www.adb.org/>

Established in 1966, ADB is a multilateral development finance institution jointly owned by 59 members, mostly from Asia and the Pacific.

The ADB's principal stated goal is to reduce poverty. Its related objectives are to foster economic growth, support human development, improve the status of women, and protect the environment.

ADB's principal tools are loans and technical assistance, which it provides to governments for specific projects and programs. ADB's lending volume in 1999 was \$5,000 million. Technical assistance grants, amounting to \$173 million in 1999, were provided for project preparation and for supporting advisory activities.

ADB's headquarters is in Manila. It has more than 10 resident missions around Asia, a regional mission for the Pacific in Vanuatu, and representative offices in Frankfurt, Tokyo, and Washington, D.C.

The United States and Japan are the largest contributors, each providing a 16 percent share of the institution's funds.

The Asian Development Fund is the ADB's concessional lending window, providing loans to the region's poorest countries.

African Development Bank Group (AfDB)

<http://www.afdb.org/about.html>

Established in 1964, the mission of the African Development Bank Group is to promote economic and social development through loans, equity investments, and technical assistance. Headquartered in Abidjan, Côte d'Ivoire, the bank group consists of three institutions: the African Development Bank (AfDB), the African Development Fund (AfDF), and the Nigeria Trust Fund (NTF).

The United States has been an AfDB member since 1983 and is the bank's largest non-African shareholder, with about a 5.6 percent share.

The Bank's authorized capital totaled \$23,290 million in 1997.

The African Development Fund, the bank affiliate that commenced operations in 1974, provides development financing on concessional terms to the region's lowest income countries. The United States is the second largest contributor to the African Development Fund, right after Japan, providing 11 percent of all contributions.

The Nigerian Trust Fund was established by the Nigerian government in 1976 to assist in the development efforts of the poorer AfDB members.

European Bank for Reconstruction and Development (EBRD)

<http://www.ebrd.org/english/index.htm>

Officially opened for business in April 1991, the EBRD was created to help the former communist states of Eastern Europe, the former Soviet Union, and the former Yugoslavia move toward market-oriented economies. The EBRD is at present operating in 27 countries.

The EBRD provides direct financing for private sector activities, restructuring, and privatization, as well as funding for the infrastructure that supports these activities. Its investments also help to build and strengthen institutions. The main forms of EBRD financing are loans, equity investments (shares), and guarantees.

At the end of 1999, loans for private sector activities accounted for 70 percent of all bank operations. The agreements that established the EBRD forbid that lending to the public sector exceed 40 percent of the bank's total investments. Lending that helps EBRD countries improve and expand their financial sectors accounts for about one-third of the total value of the bank's operations.

The United States is the single largest shareholder in the EBRD, with 10.4 percent of the total shares. □

Sources: Congressional Budget Justification for Foreign Operations, Fiscal Year 2001, U.S. Department of State; the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank, the International Monetary Fund, and the World Bank Group.

❑ SELECTIVE CHRONOLOGY OF THE INTERNATIONAL FINANCIAL INSTITUTIONS

July 1-22, 1944

The International Monetary Fund (IMF) and World Bank Articles of Agreement are formulated at the United Nations Monetary and Financial Conference, Bretton Woods, New Hampshire, attended by representatives of 44 governments. The IMF's function is to assist countries with short-term balance-of-payments problems, with the objective of stabilizing exchange rates. The Fund is to operate within a system of fixed exchange rates and a fixed price of gold. The World Bank is called the International Bank for Reconstruction and Development (IBRD). Initially the IBRD is to provide loans for reconstruction in postwar Europe. But soon it will make loans for development in Asia, Africa, the Middle East, and Latin America.

March 8-18, 1946

The inaugural meeting of the Boards of Governors of the IMF and the World Bank is held in Savannah, Georgia. By-laws are adopted, agreement is reached to locate IMF and World Bank headquarters in Washington, and the first executive directors of both institutions are chosen. The executive directors are to handle the day-to-day management of the institutions.

June 25, 1946

The World Bank formally begins operations.

September 27-October 5, 1946

The first annual meetings of the Boards of Governors of the IMF and the World Bank are held in Washington.

March 1, 1947

The IMF begins operations.

May 8, 1947

The first drawing from the IMF — by France for \$25 million.

May 9, 1947

The first World Bank loan — to France. The \$250 million loan for reconstruction purposes remains the largest loan in real terms ever made by the Bank.

March 25, 1948

World Bank executive directors approve the Bank's first loan to a developing country — \$13.5 million for a hydroelectric project in Chile.

July-November 1949

The World Bank launches its first comprehensive economic survey, of Colombia's economic resources and needs.

September 13, 1950

The World Bank makes two loans, totaling \$7 million, to Ethiopia, the first loans in Africa.

August 13-14, 1952

West Germany and Japan become IMF and World Bank members.

October 1, 1952

The IMF Executive Board approves proposals for standardized Stand-By Arrangements. The Stand-By is the basic IMF facility for helping countries with balance-of-payments problems.

July 20, 1956

The World Bank affiliate the International Finance Corporation (IFC) is established. The IFC is to assist the private sector in developing countries.

December 1959

The Inter-American Development Bank (IADB) is established with headquarters in Washington, D.C. The IADB is to provide loans for development in Latin America and the Caribbean.

September 24, 1960

The World Bank affiliate the International Development Association (IDA) is established. IDA is to provide concessional loans to the poorest countries.

May 11, 1961

The IDA extends its first development credit — \$9 million to Honduras for highway development and maintenance.

January 5, 1962

The IMF Executive Board adopts terms and conditions for the General Arrangements to Borrow (GAB), which is a supplementary source of financing that 11 industrialized countries have agreed to make available under certain circumstances to IMF members needing short-term assistance.

September 17, 1962

First World Bank loan to finance education — a \$5 million IDA credit to Tunisia for school construction.

February 27, 1963

The Compensatory Financing Facility (CFF) is created. The CFF is intended to help countries hurt by the economic effects of temporary shortfalls in export earnings.

July 1, 1966

The African Development Bank begins operations with headquarters in Abidjan, Côte d'Ivoire. The bank will provide loans for development.

August 22, 1966

The Asian Development Bank is established with headquarters in Manila, the Philippines. The bank will provide loans for development.

October 14, 1966

The World Bank's International Center for Settlement of Investment Disputes is established. The center will help mediate disputes between governments and investors.

June 16, 1970

The World Bank makes its first loan for population planning, to Jamaica for \$2 million.

May 18, 1971

The World Bank signs its first loan agreement for pollution control — \$15 million for river pollution in São Paulo, Brazil.

August 15, 1971

As part of a package of anti-inflation measures, the United States informs the IMF that it will no longer freely buy and sell gold to settle international transactions. Par values and convertibility of the dollar — two main features of the Bretton Woods system — cease to exist.

December 18, 1971

After four months of negotiations, the Smithsonian Agreement provides for realignment of industrial country currencies and an increase in the price of gold. The IMF establishes a temporary regime of central rates and wider margins.

March 19, 1973

"Generalized floating" begins as European Community countries introduce the joint float for their currencies against the U.S. dollar.

July 1973

The African Development Fund, an affiliate of the African Development Bank, begins operations.

September 13, 1974

The IMF establishes the Extended Fund Facility (EFF) to give medium-term assistance to members with balance-of-payments problems resulting from structural changes in their economies.

October 1974

The IMF's policy-making Interim Committee and the World Bank's Development Committee are established and hold their first meetings.

August 1978

The World Bank publishes its first *World Development Report*, which becomes the Bank's annual flagship publication.

July 24, 1979

The World Bank approves plans to begin lending operations for health-related activities.

March 25, 1980

The World Bank approves its first structural adjustment loan (SAL), to Turkey for \$200 million. The SAL is a quick-disbursing assistance loan intended to support structural reforms in a particular sector or a country's economy as a whole. SALs now account for about one-fourth of World Bank lending.

April 25, 1980

The Interim Committee agrees the IMF should be ready to play a growing role in resolving balance-of-payments imbalances by providing assistance over longer periods and in larger loans.

May 21, 1981

The IMF extends financing to members encountering balance-of-payments difficulties produced by excesses in the cost of cereal imports. The assistance is integrated into the IMF's Compensatory Financing Facility.

August 13, 1982

Mexico announces serious problems servicing its foreign debt, marking the onset of the Latin American debt crisis. In the following months, the IMF supports major adjustment programs in Mexico and several other countries facing severe debt-servicing difficulties.

December 2, 1985

The leadership of the IMF and World Bank express broad support for the debt initiative proposed by U.S. Treasury Secretary James A. Baker. The initiative, known as the Baker Plan, calls for comprehensive adjustment measures by debtors, increased and more effective structural lending by multilateral development banks, and expanded lending by commercial banks.

March 23, 1986

The Inter-American Development Bank's Inter-American Investment Corporation (IIC) is established. The IIC, an autonomous affiliate, is to help finance small and medium-scale private enterprises.

March 27, 1986

The IMF establishes the Structural Adjustment Facility (SAF) to provide balance-of-payments assistance on concessional terms to low-income developing countries.

December 29, 1987

The IMF establishes the Enhanced Structural Adjustment Facility (ESAF) to replace the SAF. The ESAF will provide resources to low-income members undertaking strong three-year macroeconomic and structural programs to improve their balance of payments and foster growth.

April 12, 1988

The World Bank affiliate the Multilateral Investment Guarantee Agency (MIGA) is formally established. MIGA is intended to supplement national and private agencies supporting foreign direct investment.

May 23, 1989

The IMF Executive Board strengthens the Fund's strategy for dealing with developing country debt problems, based in part on proposals by U.S. Treasury Secretary Nicholas F. Brady — the so-called "Brady Plan." Countries with

strong adjustment programs will gain access to IMF resources for debt or debt-service reduction.

January 30, 1990

The biggest ever World Bank loan (in nominal terms) — \$1,260 million — is approved for Mexico in support of that country's debt-reduction program.

November 1990

The IMF Executive Board approves temporary expansion of Fund facilities to support countries affected by the Middle East crisis resulting from Iraq's occupation of Kuwait.

April 1991

European Bank for Reconstruction and Development (EBRD) opens for business. The EBRD was created to help the former centrally-planned states of Eastern Europe, the former Soviet Union (including Russia), and the former Yugoslavia move toward market-oriented economies.

April-May 1992

The IMF Executive Board approves membership of countries of the former Soviet Union.

June 1, 1992

The Russian Federation becomes a member of the IMF.

June 16, 1992

The Russian Federation becomes a member of the World Bank and the IDA.

August 5, 1992

The IMF approves the first Stand-By Arrangement of approximately \$1,040 million for Russia.

January 1993

The Inter-American Development Bank affiliate the Multilateral Investment Fund (MIF) is established. The role of the MIF, a key element of the U.S. Enterprise for the Americas Initiative, is to promote investment reforms and encourage private sector development.

February 1, 1995

The IMF Executive Board approves a Stand-By Arrangement of approximately \$17,800 million for Mexico — the largest financial commitment by the IMF to date — to help that country recover from the its currency crises.

March 3, 1995

Korea becomes the 26th country to graduate from the World Bank and the first to progress from being a purely concessional IDA borrower to being a donor.

March 26, 1996

The IMF Executive Board approves an approximately \$10,087 million Extended Fund Facility for Russia, the largest EFF in IMF history.

April 16, 1996

The IMF establishes voluntary Special Data Dissemination Standard (SDDS) for member countries having, or seeking, access to international capital markets. Countries participating in the SDDS agree to provide up-to-date and quality data on their national financial situations for the IMF's electronic Dissemination Standards Bulletin Board (DSBB), and to establish an Internet site containing the actual data to which the bulletin board is linked.

September 1996

The IMF Interim and World Bank Development Committees endorse a joint initiative for heavily indebted poor countries (the HIPC Initiative), which will allow the poorest countries to negotiate a writing down of the debts they owe the international financial institutions in exchange for economic reforms.

January 27, 1997

The IMF Executive Board approves the New Arrangements to Borrow (NAB) as the first and principal recourse in the event of a need to provide supplementary resources to the IMF. In the NAB, 25 IMF member countries agree to lend to the IMF under certain circumstances to provide extra assistance when needed.

April 25, 1997

The IMF Executive Board approves issuance of Public Information Notices following the conclusion of a member's Article IV consultations with the IMF, at the request of the member, to make the IMF's views known to the public.

July 2, 1997

The Thai government, facing the cumulative effect of prolonged imprudent policies, stops supporting the country's currency, the Baht, which begins to drop in value, sparking a financial crisis that spreads to other Asian countries. The effects of this Asian financial crisis

are eventually felt in Hong Kong, Korea, and around the world.

December 4, 1997

The IMF Executive Board approves a Stand-By Arrangement of around \$21,000 million for Korea, the largest financial commitment in IMF history.

December 17, 1997

In the wake of the financial crisis in Asia, the IMF establishes the Supplemental Reserve Facility (SRF) to help members cope with the sudden and disruptive loss of market confidence. The SRF is activated the next day to support the Stand-By Arrangement for Korea. Approximately \$3,500 million is made available to Korea under the SRF.

December 23, 1997

The World Bank resumes lending to Korea to help that country through its financial crises. Korea had graduated from the World Bank programs in March 1995. The Bank approves a \$3,000 million economic reconstruction loan for Korea. More loans are subsequently provided.

December 1997

The IMF's General Data Dissemination System (GDSD) is officially launched. The primary focus of the GDSD is on helping countries improve the quality of their economic data.

April 8, 1998

Uganda becomes the first IMF member to receive debt relief (approximately \$350 million in net-present-value terms) under the HIPC Initiative.

July 20, 1998

The IMF activates the General Arrangements to Borrow for the first time in 20 years to finance an \$8,300 million augmentation of the Extended Fund Facility Arrangement for Russia.

October 6, 1998

At annual IMF/World Bank meetings, the governors endorse the concept of a new financial architecture — to address far-reaching problems facing the world economy. Its main tenets are increased transparency; consolidation of banking supervision; orderly, cautious progress toward liberalization of capital movements; and partnership with the private sector.

December 2, 1998

The IMF activates the New Arrangements to Borrow for the first time, to help finance an \$18,100 million Stand-By Arrangement for Brazil.

January 1, 1999

Eleven European IMF member countries adopt a new common currency, the euro. The European Central Bank, which manages euro area monetary policy, is granted observer status in the IMF.

January 22, 1999

The quota contributions of IMF members are increased as the Fund's Eleventh General Review takes effect, raising total quotas to 212,000 million in Special Drawing Rights, or about \$297,000 million.

April 23, 1999

The IMF Executive Board expands the SRF to provide for Contingent Credit Lines for members that have strong economic policies but that might be affected by financial contagion from other countries.

September 30, 1999

The IMF Board of Governors approves transforming the Fund's Interim Committee into the International Monetary and Financial Committee. The IMF Executive Board adopts a resolution to conduct, as a one-time, exceptional operation, off-market sales of up to 14 million ounces of IMF gold as part of a package to allow the IMF to finance its share of the enhanced HIPC Initiative.

November 22, 1999

The IMF's ESAF is renamed the Poverty Reduction and Growth Facility (PRGF); its objectives are to foster durable growth so as to raise living standards and reduce poverty in the poorest IMF members, who are eligible for the PRGF.

December 10, 1999

Uganda becomes first country to receive assistance under the IMF's Poverty Reduction and Growth Facility.

April 4, 2000

The IMF's Executive Board adopts plans to monitor more closely the use of its resources by borrowing countries. Starting in July, the central banks of borrowing countries must publish annual financial statements audited, to international standards, by outside experts and must provide more economic information to IMF officials.

December 14, 1999-April 5, 2000

The IMF conducts seven off-market gold transactions with Brazil and Mexico, in which 12.944 million troy ounces of gold were sold and accepted back immediately at the same price in settlement of these members' obligations to the IMF. The IMF retains the book value of the gold (about \$47 per troy ounce) and invests the remainder of the proceeds to help finance the IMF's contribution to HIPC debt relief and financial support for the world's poorest countries.

July 19, 2000

The IMF launches publication on its Web site of quarterly reports on developments in the Special Data Dissemination Standard, with a view toward chronicling progress and giving the initiative more prominence.

August 9, 2000

As part of its surveillance of developments in international capital markets, the IMF begins publishing quarterly reports on emerging market financing on its Web site.

December 22, 2000

The IMF and World Bank jointly announce that 22 of the world's poorest countries — 18 of them in Africa — will qualify for the HIPC debt relief program.

Sources: Congressional Budget Justification for Foreign Operations, Fiscal Year 2001, U.S. Department of State; the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank, the International Monetary Fund, and the World Bank Group.

□ THE HIPC DEBT RELIEF INITIATIVE

The Heavily Indebted Poor Countries (HIPC) debt relief initiative establishes a process that allows those of the world's poorest countries that are saddled with exceptionally high debt burdens to negotiate reductions in loans payments and in their total debt stocks.

The International Monetary Fund (IMF) and the World Bank jointly administer HIPC, which was launched in September 1996. HIPC covers "official debt" owed by the poorest countries' governments to the donor governments or to the IFIs; loans from these sources account for most of the poorest countries' debts. Traditionally, debt owed by the poorest countries to donor governments has been rescheduled and reduced through the so-called Paris Club, with representatives of the creditor and debtor governments meeting regularly in Paris to work out agreements. HIPC is unique by its inclusion of IFI loans as part of a program for negotiated debt reduction.

While four countries -- Bolivia, Guyana, Mozambique, and Uganda -- completed the original HIPC program and obtained relief on their debt service payments, the first HIPC initiative's rules were widely viewed as too onerous, making it difficult for countries to qualify, and, once in, to gain debt relief.

The IMF and the World Bank, prodded by the Group of Seven (G-7) major industrialized country governments, made significant changes in HIPC in 1999. Under the new enhanced HIPC program, launched in October 1999, more countries can qualify for the program, and the debt relief is made available faster and is directed toward the beneficiary countries' pressing social needs. At their summit in Cologne in June 1999, the G-7 countries endorsed the enhancements to HIPC. They also endorsed steps to forgive their own bilateral official debts with the poorest countries.

Under both the original and the enhanced HIPC, poor countries eligible for the initiative agree to enter IMF/World Bank-administered programs for economic reforms. In return for implementing reforms, the IFIs agree to, first, grant debt service relief on their loans, and then, by the conclusion of the program, to reduce the debt stock. As part of the process, the donor countries

agree to reduce or forgive bilateral debts. This can be done either through the Paris Club process or unilaterally.

Proponents of the HIPC initiative have stressed that debt should be forgiven only as the country implements economic reforms. They maintain that debt forgiven without reforms will be wasted.

When the enhanced HIPC initiative was launched, 41 countries were identified as eligible, which is based on a variety of factors, including debt sustainability.

To date, 22 countries have completed the first phase of the enhanced HIPC initiative, reaching the so-called decision point, at which the countries have begun their economic reform programs and are beginning to receive debt service relief.

The 22 countries are Benin, Bolivia, Burkina Faso, Cameroon, The Gambia, Guinea, Guinea-Bissau, Guyana, Honduras, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Sao Tome and Principe, Senegal, Tanzania, Uganda and Zambia. Uganda is the only country that has completed the program.

Once all 22 countries have reached the "completion" point of the program, they will see their foreign debt reduced by almost half, on average, according to a joint statement issued by IMF Managing Director Horst Koehler and World Bank President James D. Wolfensohn on December 22, 2000. When that debt relief is combined with traditional debt relief through the Paris Club and with the additional bilateral relief that has been pledged by donor nations, these countries will see their foreign debt fall, on average, by about two-thirds. As a result, says the IMF, these countries will be spared some \$34,000 million in debt service obligations.

Additional information the HIPC program can be found at the IMF and World Bank web sites at:
<http://www.imf.org/external/np/hipc/hipc.htm> and
<http://www.worldbank.org/hipc/>

Source: International Monetary Fund and World Bank.

INFORMATION RESOURCES

KEY CONTACTS AND INTERNET SITES

UNITED STATES GOVERNMENT

Joint Economic Committee of Congress
IMF and International Economic Policy Page
<http://www.house.gov/jec/imf/imfpage.htm>

U.S. Department of State
Economic Bureau
<http://www.state.gov/e/eb/>

U.S. Department of the Treasury
Public Affairs Briefing Room Archives
<http://www.treas.gov/press/releases/01arch.htm>

U.S. Department of the Treasury
Treasury Reports
<http://www.treas.gov/press/releases/reports.htm>

KEY INTERNATIONAL FINANCIAL INSTITUTION INTERNET SITES

African Development Bank Group
<http://www.afdb.org/about.html>

African Development Bank
<http://www.afdb.org/>

African Development Fund
<http://www.afdb.org/about/afdbgrp/adf.html>

Asian Development Bank
<http://www.adb.org/>

European Bank for Reconstruction and Development
<http://www.ebrd.org/english/index.htm>

Inter-American Development Bank
<http://www.iadb.org/>

Inter-American Investment Corporation
<http://www.iadb.org/iic/english/index.htm>

Multilateral Investment Fund
<http://www.iadb.org/mif/index.htm>

International Monetary Fund
<http://www.imf.org/external/index.htm>

International Monetary Fund Finance Information
<http://www.imf.org/external/fin.htm>

World Bank Group
<http://www.worldbank.org>

International Bank for Reconstruction and Development
<http://www.worldbank.org/html/extdr/backgrd/ibrd/>

International Development Association
<http://www.worldbank.org/ida/>

International Finance Corporation
<http://www.ifc.org/>

International Center for Settlement of Investment Disputes
<http://www.worldbank.org/icsid/>

Multilateral Investment Guarantee Agency
<http://www.miga.org>

Other World Bank sites

Global Environmental Facility
<http://www.gefweb.org/index.html>

World Bank Heavily Indebted Poor Countries (HIPC) page
<http://www.worldbank.org/hipc/>

ADDITIONAL READINGS ON REFORMING THE INTERNATIONAL FINANCIAL INSTITUTIONS

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<http://www.treas.gov/press/releases/imfreform.pdf>

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